



Central Puget Sound Regional Transit Authority

***Report on Subarea Equity for the
Year Ended December 31, 2007***

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Sound Transit

Subarea Equity

One of the unique features of the Sound Transit plan is that it formally commits to creating a balanced regional transit system that provides benefits to the residents of each of Sound Transit's five geographic areas – Snohomish County, North King County, South King County, East King County and Pierce County.

The principle of subarea equity assures that Sound Transit taxes raised within an area are used for capital projects and operations that benefit the residents of that area.

For example, the Snohomish County Subarea is paying for Sounder commuter trains and track improvements in King County because Snohomish County residents directly benefit from the North Corridor service into Seattle and back.

Each subarea has its own budget based on its projected share of local taxes, borrowed funds, federal grants, farebox revenues and related expenditures. A system has been established to report on individual subarea performance.

Priority projects for each subarea were identified through a public process involving established local elected official organizations as part of the *Sound Move* plan prior to the 1996 election.

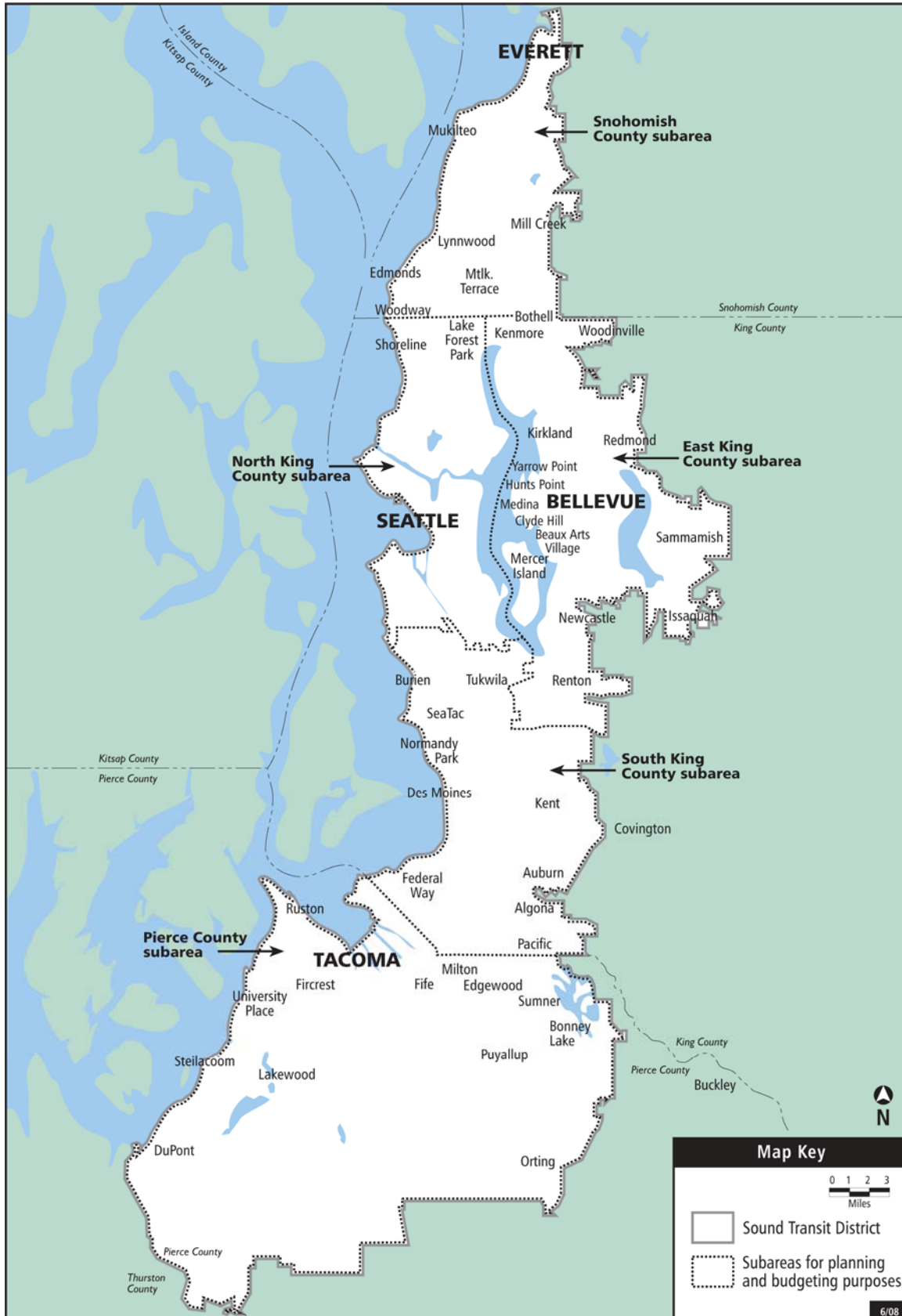
Also as part of *Sound Move*, system wide elements that improve mobility throughout the region are funded through a percent of local tax revenues contributed by each of the five subareas and interest earnings. For example, elements include regional fare programs (*Puget Pass* and the *ORCA* smart card), research and development of new transit-related technology and planning, and environment analysis for future capital programs.

Strong safeguards are in place

Changing the subarea equity principle would take two-thirds, or 12 votes, of the 18-member Sound Transit Board. In addition, other strong accountability measures are in place, including an independent Citizen Oversight Panel and regular external audit.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

SOUND TRANSIT DISTRICT



Management's Discussion of Subarea Equity, continued

Sound Transit District Subareas

The Sound Transit District is divided into five geographic subareas for planning and budgeting purposes. The system components in *Sound Move* address unique needs in each of these subareas. Local tax revenues and related debt for projects and services are utilized to benefit the subareas generally in proportion to the level of revenues each subarea generates.

Snohomish County:

The Snohomish County subarea includes the cities of Brier, Edmonds, Everett, Lynnwood, Mill Creek, Mountlake Terrace, Mukilteo and Woodway. In 2007, the Snohomish County subarea had an estimated population of 405,000 residents, accounting for 59 percent of the Snohomish County population.

North King County:

The North King County subarea includes the cities of Seattle, Shoreline and Lake Forest Park. In 2007, the North King subarea had an estimated population of 654,000, accounting for 35 percent of King County's population.

South King County:

The South King County subarea includes the cities of Algona, Auburn, Burien, Des Moines, Federal Way, Kent, Normandy Park, Pacific, SeaTac and Tukwila. Since 1990, this has been the fastest growing area of King County. In 2007, the South King subarea had an estimated population of 488,000 residents, accounting for 26 percent of King County's population.

East King County:

The East King County subarea includes the cities of Beaux Arts, Bellevue, Bothell, Clyde Hill, Hunts Point, Issaquah, Kenmore, Kirkland, Medina, Mercer Island, Newcastle, Redmond, Renton, Sammamish, Woodinville, and Yarrow Point. In 2007, the East King subarea had an estimated population of 500,000 residents, accounting for 27 percent of King County's population.

The combined three King County subareas account for 88 percent of the total King County population.

Pierce County:

The Pierce County subarea includes the cities of Bonney Lake, DuPont, Edgewood, Fife, Fircrest, Lakewood, Milton, Orting, Puyallup, Ruston, Steilacoom, Sumner, Tacoma and University Place. In 2007, the Pierce County subarea had an estimated population of 664,000 residents, accounting for 84 percent of the Pierce County population.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

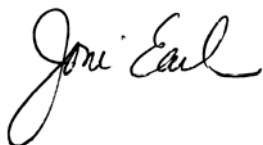
The financial statements of the Central Puget Sound Regional Transit Authority (Sound Transit) are prepared from the Agency's accounting system in accordance with generally accepted accounting principles. The integrity and objectivity of information in Sound Transit's financial statements, including estimates and judgments, are the responsibility of management.

Sound Transit maintains a system of internal accounting controls designed to provide reasonable assurance as to the integrity and reliability of financial and subarea reporting, the safeguarding of assets and the prevention and detection of material errors or fraudulent financial reporting. Monitoring of such systems includes management's responsibility to objectively assess the effectiveness of internal accounting controls and recommend improvements therein.

Limitations exist in any system of internal accounting controls in which the cost of the system being implemented should not exceed the benefits derived. Sound Transit believes that the organization's system does provide reasonable assurance that transactions are executed in accordance with management's general or specific authorizations and is adequate to accomplish the stated objectives.

The independent auditors, whose report is included herein, were engaged to perform certain agreed upon procedures on the 2007 Schedule of Subarea Equity. Their report includes the results from the performance of these procedures which were developed by management, the Audit and Reporting Subcommittee and the Citizen Oversight Panel.

In an attempt to assure objectivity, the financial information contained in this report is subject to review by the Board of Directors.



Joni Earl
Chief Executive Officer



Brian McCartan
Chief Financial Officer



Kelly A. Priestley
Controller

MANAGEMENT'S DISCUSSION ON SUBAREA EQUITY

For the year ending December 31, 2007

Management's Discussion on Subarea Equity presents a narrative overview and analysis of the Agency's financial activities by subarea for the year ended December 31, 2007. This discussion is intended to assist readers of the schedule in focusing on significant financial activities and issues and to identify any significant changes. As this information is presented in summary form, it should be read in conjunction with the Schedule of Subarea Equity and footnotes, as well as Sound Transit's audited financial statements.

Central Puget Sound Regional Transit Authority, a public corporation acting under the service name of Sound Transit, is a regional transit authority implementing and providing a high-capacity transportation system throughout parts of King, Pierce and Snohomish Counties through commuter rail ("Sounder"), light rail ("Link") and a regional express bus system ("ST Express"). The implementation of the initial phase of the voter-approved regional transportation system ("*Sound Move*") is scheduled for a 20-year period, ending in 2016. In anticipation of a full funding grant agreement for University Link, this represents an extension of the Ten-Year Regional Transit System Plan previously scheduled to complete in 2009. The agency's activities to date have been concentrated on implementing service in all three transit modes and on the design, environmental review and construction of its capital projects.

The concept of subarea equity is an integral part of the *Sound Move* plan approved by the voters in 1996 and requires that subarea equity be achieved by the completion of Phase 1. The *Sound Move* plan included *Appendix A: Detailed Description of Facilities and Costs* that defined subarea equity through programming projects and services. *Sound Move Appendix B: Financial Policies* defines the requirements of subarea equity through implementation, monitoring and adjustment policies. As required in *Appendix B*, the Agency has implemented an accounting system that details transactions and facilitates reporting of what has been earned and spent in each subarea and is the basis upon which the annual Report on Subarea Equity is prepared.

Since 1998, Sound Transit has produced the Schedule of Subarea Equity and related notes. As part of the annual engagement with the agency's auditors, an examination based on agreed-upon procedures is performed with results reported to the board's Audit and Reporting Subcommittee. These procedures test a specified number of transactions and verify that the attribution of cost or revenue to a subarea is correct, based on agency established rules approved by the Board. To date, there have been no significant reported issues.

Sound Transit's financial statements have reflected a growth in operating revenues and expenses each year, as well as growth in capital projects in progress, and property, vehicles and equipment. As the Agency has not reached its full service levels and is in the construction stage on its light rail project, major sources of revenue exceed expenses and capital outlays, resulting in a rising net asset position.

Preparation of the Schedule of Subarea Equity

The Schedule of Subarea Equity is prepared from the Agency's accounting system from which the financial statements are prepared. For each financial statement caption, the total by subarea, including the Regional Fund, are agreed to the financial statements reported on separately by Sound Transit's auditors. The financial statements are prepared in conformity with United States generally accepted accounting principles as applied to government units and are prepared using the economic resource measurement focus and accrual basis of accounting. As Sound Transit comprises a single proprietary fund, no fund level financial statements are prepared.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

In accordance with GAAP, all revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of Sound Transit are included in the Balance Sheets and depreciation of capital assets is recognized in the Statements of Revenues, Expenses and Changes in Net Assets.

The Schedule of Subarea Equity presents the overall financial results by equity area, as well as their net assets, segregated by invested in capital assets, restricted and unrestricted. Net assets are the difference between assets and liabilities and over time may serve as a useful indicator of each subarea's financial position. The Schedule of Subarea Equity should be read together with Sound Transit's financial statements, which also include management's discussion and analysis of those statements, along with notes which provide additional information that is essential to a full understanding of the information provided.

Financial Highlights

- Total operating revenues were \$26.3 million for 2007, an increase of 22.3% from the prior year. Passenger fares increased by \$3.9 million from the prior year as a result of providing additional round-trip Sounder service and large ridership gains on Sounder and ST Express. The increases were experienced in all subareas providing revenue service.
- Loss from operations was \$125.4 million for 2007, an increase of 4.8% from the prior year. Consistent with service level increases, costs increased in all subareas.
 - Operations and maintenance expenses increased by 11.2% reflecting the increased service levels, as well as unit cost increases in the price of fuel and labor and higher maintenance costs.
 - General and administrative expenses, after allocations to capital projects and operations and maintenance, decreased by 7.6 %. The prior year included a write-off of general and administrative expenses of \$2.4 million, which was recorded in South King County.
- Non-operating revenues were \$352.6 million in 2007, and were comparable to the prior year.
 - Increases were experienced in all subareas and are primarily attributable to stronger sales and motor vehicle excise tax revenues, which increased by 7.1%, as the economy continues to perform strongly.
 - Investment income decreased by 33.1%, mostly impacting the regional fund. Non-operating expenses increased by 120.3%. Non-operating expenses include Phase 2 and East corridor planning, CDF, and cost incurred in support of construction claims, impacting North King County, South King County and East King County.
- Federal, state and local contributions to Sound Transit of \$117.4 million decreased by 18.8% from the prior year, while completed projects transferred to other governments of \$115.6 million increased by \$42.8 million or 58.8%.
 - Federal contributions related to the Link light rail project increased slightly from 2006, however federal, state and local contributions related to the Sounder and ST Express projects decreased, resulting in lower contributed revenues in South King County, East King County and Pierce County as those programs approach completion.
 - Contributions to other governments for completed projects increased substantially with the completion of the Totem Lake Freeway Station/NE 128th project (\$67.9 million), an East King County project.
- Total net assets at December 31, 2007, were \$2.9 billion, an increase of \$229.0 million or 8.6% from 2006. An increase in net assets reflects an excess of revenues over expenses and net assets increased in

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

2007 in all subareas except East King County, which included \$93.1 million in contributions to other governments, and the Regional Fund, which experienced lower investment earnings.

- Revenues exceeded expenses in the following subareas: Snohomish County, \$30.5 million; North King County, \$141.9 million; South King County, \$61.7 million; and, Pierce County, \$31.8 million. Expenses exceeded revenues in East King County, \$34.1 million; and, the Regional Fund, \$2.8 million.
- Total capital assets, net of depreciation, were \$3.5 billion at December 31, 2007, an increase of \$583.6 million or 20.3% from 2006.
 - Total net capital assets increased in all subareas except East King County and the Regional Fund, with the largest increases in North King County (\$339.8 million), and South King County (\$201.6 million), reflecting activity on the Link light rail project. East King County decreased by \$40.5 million with the completion of the Totem Lake Freeway Station/NE 128th project and the Regional Fund decreased by \$0.8 million reflecting depreciation of administrative assets.
- At December 31, 2007, the restricted and unrestricted net amount available for investment in each subarea was Snohomish County (\$20.6 million); North King County (\$170.6 million); South King County (\$8.5 million); East King County (\$249.0 million); Pierce County (\$125.3 million); and the Regional Fund (\$85.5 million). These amounts represent what was available at December 31, 2007, based on the revenues, expenses, capital expenditures and bonds issued for *Sound Move* to date. These amounts do not take into account revenues, expenses, capital expenditures and bonds to be issued for the remainder of Phase I of *Sound Move*.
- During the year subarea borrowing was required by North King County and South King County which was repaid in November 2007. At December 31, 2007 there were no subarea loans outstanding.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

Financial Analysis

Excess of Revenues over Expenses and Change in Net Assets

In 2007, revenues exceeded expenses by \$229.0 million, while in 2006 it was \$302.6 million. The lower net revenues in 2007 from the prior year primarily relates to lower net capital contributions as the agency transferred several completed projects to other governments or the State.

Table S-1

Excess of Revenues Over Expenses by Subarea

(in millions)

	As of December 31, 2007						
	Snohomish	North King	South King	East King	Pierce	Regional Fund	Total
Operating Revenues							
Passenger fares	\$ 3.3	\$ -	\$ 3.7	\$ 8.5	\$ 6.5	\$ -	\$ 22.0
Other	0.7	0.6	1.1	0.4	1.4	0.1	4.3
Total Operating Revenues	4.0	0.6	4.8	8.9	7.9	0.1	26.3
Operating Expenses							
Total operating expenses, before depreciation and loss on disposal of assets	14.5	0.1	19.7	36.5	29.0	16.4	116.2
Depreciation and loss on disposal of assets	4.1	0.3	11.2	5.5	12.0	2.4	35.5
Total operating expenses	18.6	0.4	30.9	42.0	41.0	18.8	151.7
Loss from operations	(14.6)	0.2	(26.1)	(33.1)	(33.1)	(18.7)	(125.4)
Non-operating revenues, net of expenses	45.0	80.8	60.9	87.3	63.5	15.1	352.6
Income before capital contributions	30.4	81.0	34.8	54.2	30.4	(3.6)	227.2
Capital contributions	0.1	60.9	26.9	(88.3)	1.4	0.8	1.8
Change in Net Assets	30.5	141.9	61.7	(34.1)	31.8	(2.8)	229.0
Total net assets, beginning	252.6	921.5	570.4	407.2	384.1	111.5	2,647.3
Total Net Assets, ending	<u>\$ 283.1</u>	<u>\$1,063.4</u>	<u>\$ 632.1</u>	<u>\$ 373.1</u>	<u>\$ 415.9</u>	<u>\$ 108.7</u>	<u>\$ 2,876.3</u>

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

A summary of significant changes by equity area is as follows:

Snohomish County

Revenues exceeded expenses by \$30.5 million, up \$1.2 million from 2006. This increase relates to higher net non-operating revenues of \$2.2 million, which was due to higher tax revenues in 2007. Loss from operations was comparable to 2006, even though service levels and operating expenses did increase; reflecting strong ridership gains, particularly on Sounder, as well as a smaller allocation of Sounder vehicle depreciation as a greater number of vehicles get deployed on the South Line. Capital contributions to other governments totaling \$4.4 million substantially offset contributions received of \$4.5 million.

North King County

Revenues exceeded expenses by \$141.9 million, up \$7.0 million from 2006. This increase relates to higher capital contributions received of \$8.2 million with the first contributions received for the University Link extension. Net non-operating revenues of \$80.8 million, declined by \$1.4 million from the prior year due to higher non-operating expenses of \$6.7 million, mostly offset by higher tax revenues of \$9.2 million. The higher non-operating expenses related to Link start-up, legal cost in support of construction claims and mitigation expenditures in the Rainier Valley, as well as a \$3.0 million increase in subarea borrowing interest expense. Subarea borrowing was repaid in December with the issuance of the 2007A Sales Tax Bonds.

South King County

Revenues exceeded expenses by \$61.7 million, down \$3.2 million from 2006. Loss from operations increased in 2007 by \$1.5 million, reflecting the full year impact of increases in round-trip Sounder service in 2006 and 2007. Net non-operating revenues decreased by \$1.5 million from the prior year with the increase of non-operating and interest expenses and lower investment income, partially offset by tax revenues which increased by \$2.9 million. Net capital contributions were comparable to the prior year, with contributions from other governments decreasing by \$19.5 million while contributions to other governments also decreased by \$19.3 million. Both categories of contributions reflect the lower activity in 2007 related to the Sounder and ST Express capital programs which are decreasing as the agency approaches the end of Phase 1.

East King County

Expenses exceeded revenues by \$34.1 million, down \$52.2 million from 2006. This decrease is due to the completion of the Totem Lake Freeway Station/NE128th the costs of which are expensed as a contribution to other governments upon completion. Loss from operations increased by \$1.2 million and reflects higher operating costs related to the re-opening of the Downtown Seattle Transit Tunnel, increases in service levels on ST Express and higher fleet maintenance costs as the bus fleet ages. Strong ridership growth was experienced, both with the enhancement of the Issaquah to Seattle route, but also due to increased ridership as fuel prices rise. Net non-operating revenues increased by \$8.8 million, mostly related to higher tax revenues. Non-operating expenses did increase by \$7.6 million, however this was offset by interest earned on subarea lending and 2006 included a \$5.9 million impairment of project costs due to structural cracking that arose due to a design error on the Totem Lake Freeway Station/NE128th project.

Pierce County

Revenues exceeded expenses by \$31.8 million, down \$18.3 million from 2006. This decrease relates to lower net capital contributions received of \$17.2 million as the prior year included \$8.8 million in local contributions from the Port of Tacoma and the City of Tacoma for the D to M Street project and in 2007 the Reservation – Freighthouse Square mitigation project (\$16.9 million) was completed and transferred to the City of Tacoma. Loss from operations increased by \$2.8 million, reflecting service increases on Sounder and route enhancements on the ST Express Lakewood to Seattle route, while net non-operating

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

revenues increased by \$1.7 million reflecting increased tax revenues and interest revenue earned from subarea lending.

Regional Fund

Expenses exceeded revenues by \$2.8 million, down \$8.0 million from 2006. The decrease is primarily attributable to lower net non-operating revenues of \$7.6 million due to lower investment revenues as interest rates declined slightly from the prior year and cash balances were utilized to fund the construction program during the year. Other significant changes included a decrease in non-operating expenses of \$2.1 million related to lower costs incurred in 2007 for Phase II alternative planning.

Operating Revenues

Operating revenues are comprised of passenger fares and other revenue related to operations. Operating revenues increased in 2007 by \$4.7 million, of which \$3.9 million related to higher passenger fare income and \$0.8 million in other operating income. The higher passenger fare income reflects higher per train ridership, as well as additional round trip service and an increase in the average fare per boarding.

Passenger Fares

Sounder Commuter Rail:

Passenger fares for Sounder commuter rail increased by \$1.5 million or 29.6% from 2006. This increase reflects the addition of round trip service between Auburn-to-Seattle for the month of August 2007 and between Everett-to-Seattle and Tacoma-to-Seattle in September 2007, as well as a reverse commute from Seattle-to-Tacoma. The additional service resulted in strong ridership gains in all three subareas serviced by Sounder, with strong gains in the South where the two-week I-5 freeway closure contributed to a large influx of new riders during that period who have continued with the service.

Also impacting the increased Sounder passenger fare revenues is an increase in the AFB of \$0.05. The agency restructured its fare system to distance based fares, together with a fare increase.

Table S-2

Sounder Passenger Fares by Equity Area					
<i>(in thousands)</i>					
	As of December 31, 2007			% Change	
	2007	2006	2005	2007-2006	2006-2005
Snohomish County	\$ 791.3	\$ 586.1	\$ 365.9	35.0%	60.2%
North King County	-	-	-	-	-
South King County	2,079.5	1,551.4	901.0	34.0%	72.2%
East King County	-	-	-	-	-
Pierce County	3,751.9	2,970.7	1,786.0	26.3%	66.3%
Total Passenger Fares	\$ 6,622.7	\$ 5,108.2	\$ 3,052.9	29.6%	67.3%

ST Express Bus Service:

Passenger fares for ST Express Bus service increased overall by \$2.4 million or 19.0% from 2006. Actual ridership increased by 1.0 million boardings, or 10.5%, together with an increase in the average fare per boarding of \$0.10. In 2007 service route enhancements were implemented on the Issaquah – Seattle and Lakewood – Seattle routes and system-wide service hours increased by 4.5%. However ridership increased over and above the impact of service increases, with rising fuel prices attracting new riders

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

seeking alternatives to their commute options. All four subareas serviced by ST Express experienced strong growth.

Table S-3

ST Express Passenger Fares by Equity Area					
<i>(in thousands)</i>					
	As of December 31, 2007			% Change	
	2007	2006	2005	2007 - 2006	2006 - 2005
Snohomish County	\$ 2,541.3	\$ 2,086.6	\$ 2,053.5	21.8%	1.6%
North King County	-	-	-	-	-
South King County	1,593.1	1,265.1	1,056.9	25.9%	19.7%
East King County	8,541.7	7,218.8	7,253.6	18.3%	(0.5%)
Pierce County	2,729.9	2,370.9	3,065.8	15.1%	(22.7%)
Total Passenger Fares	\$ 15,406.0	\$ 12,941.4	\$ 13,429.8	19.0%	(3.6%)

Other Operating Revenue

Other operating revenue consists of vehicle advertising, rental of equipment, property and facilities and other miscellaneous items and increased by \$0.8 million, mostly related to advertising revenues, reflecting a successful advertising program initiative.

Operating Expenses

Operating expenses are comprised of operations and maintenance costs, general and administrative expenses, loss on disposal of assets and depreciation.

Operations and Maintenance

Operations and maintenance include costs associated with the operation of the Sounder commuter rail, ST Express bus service and Tacoma Link light rail. Major expense categories are services, materials, supplies, utilities, insurance, taxes, purchased transportation, allocated overhead from staff divisions, operating leases and rentals.

Operations and maintenance increased by \$10.0 million or 11.2% from 2006. Most of the increase was in purchased transportation, which accounts for 70% of this category, which increased by \$8.3 million or 13.5%. The increase in cost reflects the service increases and corridor improvements previously described which on Sounder equated to a 14.6% increase in trips in 2007 and on ST Express a 4.5% increase in hours. Rising fuel costs also contributed to increased costs, as well as higher maintenance costs on ST Express as the fleet ages.

Key impacts by subarea include:

- Snohomish County: decreased allocation of Sounder operations cost as the proportionate share of total service increased on the South Line;
- South King County: increased allocation of Sounder operations cost as proportionate share of the total service increased on the South Line, additional service on Route 577 Federal Way – Seattle, and increased security services for stations;

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

- East King County: assumed certain costs related to debt service on the Downtown Seattle Transit Tunnel and bus tunnel operations with the re-opening of the bus tunnel as Route 550 Bellevue – Seattle operates through the tunnel, and increased service on Route 594 Issaquah – Seattle; and,
- Pierce County: increased allocation of Sounder operations cost as proportionate share of total service increased on the South Line and increased service on Route 594 Lakewood – Seattle.

A summary of operating costs by subarea is as follows:

Table S-4

Operations and Maintenance by Equity Area					
<i>(in thousands)</i>	As of December 31, 2007			% Change	
	2007	2006	2005	2007 - 2006	2006 - 2005
Snohomish County	\$ 14,447.5	\$ 13,457.2	\$ 13,000.9	7.4%	3.5%
North King County	-	-	-	-	-
South King County	19,704.4	17,506.4	15,201.6	12.6%	15.2%
East King County	36,038.0	32,751.2	28,567.1	10.0%	14.6%
Pierce County	28,923.4	25,419.1	24,333.5	13.8%	4.5%
Regional Fund	-	-	-	-	-
Total Operations and Maintenance	\$ 99,113.3	\$ 89,133.9	\$ 81,103.1	11.2%	9.9%

General and Administrative

General and administrative expenses are comprised of Agency staff and administrative costs not allocated or directly related to operations and maintenance or to capital projects. Accordingly the majority of those costs are considered regional fund costs, although certain costs that are specifically identifiable to a subarea, such as the write-off of overhead related to projects or costs in support of claims are directly coded to the respective subarea. Major expense categories include wages, benefits, services, materials, supplies, utilities, insurance, taxes, miscellaneous, lease and rental expenses.

In 2007, net general and administrative expenses decreased by \$1.4 million or 7.6% as 2006 included \$2.4 million of project overhead costs that were written of in that year. This write-off related to the postponement of construction of the permanent Tukwila Sounder Station and impacted South King County. Regional fund costs increased by \$552 thousand, mostly related to higher salary, benefit, material and supply costs.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

A summary of general and administrative costs by subarea is as follows:

Table S-5

General and Administrative Costs by Equity Area					
<i>(in thousands)</i>					
	As of December 31, 2007			% Change	
	2007	2006	2005	2007 - 2006	2006 - 2005
Snohomish County	\$ 10.9	\$ 275.0	\$ 1.8	(96.1%)	15,434.5%
North King County	137.0	166.4	181.5	(17.7%)	(8.4%)
South King County	12.8	1,517.0	167.0	(99.2%)	808.2%
East King County	384.9	515.6	523.1	(25.3%)	(1.4%)
Pierce County	19.5	54.0	80.8	(64.0%)	(33.2%)
Regional Fund	16,494.8	15,942.6	15,736.3	3.5%	1.3%
Total General and Administrative	\$ 17,059.9	\$ 18,470.6	\$ 16,690.5	(7.6%)	10.7%

Depreciation and Loss on Disposal of Assets

Depreciation expense and loss on disposal of assets increased in 2007 by \$1.9 million or 6.0% from 2006, increasing most substantially in South King County (\$1.6 million) reflecting the increased allocation of depreciation on the Sounder vehicles and the full year impact of assets put into service in 2006.

Non-Operating Revenues (Expenses)

Net non-operating revenues in 2007 were comparable to 2006, with non-operating revenues increasing by \$11.1 million and non-operating expenses increasing by \$8.9 million.

Non-operating revenues (expenses) are substantially comprised of tax revenues, investment income and certain expenses not related to operation of the agency's three modes of operations. The most significant impact on non-operating revenues was stronger tax revenues, which improved by \$23.4 million over the prior year, however investment income decreased \$12.3 million, mostly impacting the regional fund. A discussion of tax revenues by subarea follows.

Non-operating expenses include light rail operation start-up costs, east corridor planning, supplemental mitigation in the Rainer Valley, costs not eligible to be capitalized, interest expense and discontinued and impaired project costs. In 2007, the agency moved into preparations for start-up of the light rail, as well as increased east corridor planning, supplemental mitigation and incurred higher costs related to construction claim support. This resulted in large increases in non-operating expenses in North King County (\$9.7 million), South King County (\$3.5 million) and East King County of (\$5.3 million). Regional fund non-operating expenses decreased from the prior year as less costs related to Phase II Alternative planning were incurred.

Tax Revenues

Tax revenues consist of sales tax, motor vehicle excise tax and rental car tax. Overall tax revenues were up \$23.4 million or 7.1%, reflecting continued growth in the regional economy. This increase by subarea quite varied, with an increase as low as 1.6% in Pierce County and as much as 11.0% in North King County.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

A summary of tax revenues by subarea is as follows:

Table S-6

Tax Revenues by Equity Area		As of December 31, 2007			% Change	
<i>(in millions)</i>						
		2007	2006	2005	2007 - 2006	2006 - 2005
Snohomish County	\$	44.8	\$ 42.6	\$ 38.7	5.1%	9.9%
North King County		92.5	83.3	78.3	11.0%	6.4%
South King County		63.4	60.5	56.2	4.9%	7.6%
East King County		93.2	85.0	78.9	9.6%	7.8%
Pierce County		61.3	60.4	56.2	1.6%	7.4%
Total Tax Revenues	\$	355.2	\$ 331.8	\$ 308.3	7.1%	7.6%

Tax revenue increases by subarea were as follows:

- In Snohomish County tax revenues increased by \$2.2 million or 5.1%, with sales tax up \$1.8 million or 5.6% and motor vehicle excise taxes up \$0.4 million or 3.8%. Rental car tax was substantially unchanged from the prior year.
- In North King County, tax revenues increased by \$9.2 million or 11.0%, with sales tax up \$7.5 million or 10.9%, motor vehicle excise tax up \$1.7 million or 12.3% and a small increase in rental car tax.
- In South King County, tax revenues were up \$2.9 million or 4.9%, with sales tax up \$3.0 million or 6.3% and motor vehicle excise tax down \$0.1 million or 4.3% and a small increase in rental car tax.
- In East King County, tax revenues were up \$8.2 million or 9.6%, with sales tax up \$8.4 million or 12.6%, and motor vehicle excise tax down \$0.3 or 1.7% and a small increase in rental car tax.
- In Pierce County, tax revenues were up by \$0.9 million or 1.6%, with sales tax up \$0.5 million or 1.1% and motor vehicle excise tax up \$0.5 million or 3.0%. Rental car tax was substantially unchanged from the prior year.

Interest Expense

As in 2006, capital activity in 2007 supported full capitalization of the interest expense on outstanding bonds payable. Interest expense is charged to each subarea in proportion to their share of the debt and capitalized to projects in relation to construction spending during the year.

Capital Contributions

Capital contributions include federal grant funding, state and local contributions to Sound Transit, as well as contributions from Sound Transit to state and local governments pursuant to capital improvements or funding agreements.

Net capital contributions decreased in 2007 by \$70.0 million from 2006, reflecting the significant increase in contributions to other governments (\$42.8 million) with the completion of several large non-ST owned projects, most significant of which was the Totem Lake Freeway Station/ 128th Project. Federal contributions decreased in 2007 by \$17.8 million due to lower reimbursements for the Sounder and ST Express as those programs approach completion for Phase I. State and local government contributions

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

decreased by \$9.4 million with 2006 including contributions for the D to M Street project, Issaquah Transit Center and more state land bank transactions.

Some of the significant changes by subarea are highlighted as follows:

Snohomish County — Net capital contributions were down \$1.1 million in 2007. Funding related to Sounder's Everett Station and the South Everett Freeway Station were substantially offset by contributions to other governments which included North Everett Transit Center and payment of a claim related to the Ash Way Transit Access/164th project, which completed in 2006.

North King County — Net capital contributions were up \$8.2 million in 2007. Federal, state and local contributions were \$60.9 million of which \$59.7 million is from federal funds related to light rail projects. The increase is attributable to the grant funding reimbursements on the University Link extension.

South King County — Net capital contributions were down \$0.2 million in 2007. Federal, state and local contributions were \$37.2 million, down \$19.5 million, while contributions to other governments decreased by \$19.3 million as in 2006 the Federal Way Transit Center was completed. Federal grant reimbursements were \$35.8 million of which \$34.1 million is for the Link light rail project, down \$4.4 million from 2006.

East King County — Net capital contributions were down \$59.8 million in 2007, of which \$51.7 million relates to contributions to other governments and includes the completed costs of the Totem Lake Freeway Station/128th (\$67.9 million). Federal, state and local capital contributions of \$4.8 million was down \$8.1 million in 2007 as federal funding reimbursements on many of the current eligible projects was received in 2006.

Pierce County — Net capital contributions were down \$17.2 million in 2007. Federal, state and local contributions were down \$10.6 million as the prior year included local contributions from The Port of Tacoma and The City of Tacoma for the D to M Street Sounder corridor project. Contributions to other governments increased by \$6.6 million, mostly related to the completion of the Freighthouse Square Remediation project.

Regional Fund — Net capital contributions of \$0.8 million were up slightly in 2007 and reflect various projects that include transit signaling, transit security, reverse commute study, a Wi-Fi test study and long range planning.

Contributions to Regional Fund

No contributions to the Regional Fund were made in 2007 as the regional fund was in a positive net asset position. As described in Note 6 to the Schedule of Subarea Equity, up to 10% of a subarea's total tax revenues may be utilized to fund Regional Fund activities.

Capital Assets

Capital assets are comprised of capital projects in progress and property, vehicles and equipment, net of depreciation. At December 31, 2007, capital assets were \$3.5 billion, an increase of \$583.6 million or 20.3% over 2006.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

Table S-7

Sound Transit Capital Assets							
<i>(in millions)</i>							
	As of December 31, 2007						
	Snohomish	North King	South King	East King	Pierce	Regional Fund	Total
Land	\$ 20.2	\$ 176.9	\$ 65.2	\$ 12.3	\$ 51.9	\$ -	\$ 326.5
Permanent easements	260.2	0.9	6.0	-	0.1	-	267.2
Capital projects in progress							
Sound Transit	20.9	1,351.4	573.3	45.0	47.5	5.1	2,043.2
Other governments	27.6	-	3.9	22.6	-	-	54.1
Total Non-Depreciable Assets	328.9	1,529.2	648.4	79.9	99.5	5.1	2,691.0
Buildings, transit facilities & rail	22.7	50.2	118.0	30.3	112.0	22.7	355.9
Rail access rights	15.3	-	174.1	-	140.7	-	330.1
Revenue vehicles	39.6	-	59.5	43.9	92.6	-	235.6
Equipment, vehicles & other	0.1	0.3	0.0	0.1	0.0	16.4	16.9
Total Depreciable Assets	77.7	50.5	351.6	74.3	345.3	39.1	938.5
Less accumulated depreciation	(22.9)	(0.5)	(45.0)	(30.0)	(56.4)	(20.7)	(175.5)
Net Depreciable Assets	54.8	50.0	306.6	44.3	288.9	18.4	763.0
Total Net Capital Assets	\$ 383.7	\$1,579.2	\$ 955.0	\$ 124.2	\$ 388.4	\$ 23.5	\$3,454.0

A summary of major changes at December 31, 2007, by equity area is as follows:

Snohomish County

Capital assets increased by \$68.5 million from the prior year. Capital projects in progress increased by \$21.5 million. Major capital project activity included the Mukilteo Sounder Station and the South Everett Freeway Station projects. Land, permanent easements and depreciable assets increased by \$51.0 million, mostly related to the \$50.0 million acquisition of the fourth and final permanent easement from BNSF providing Sound Transit the right to add a third round-trip between Everett and Seattle.

North King County

Capital assets increased by \$339.8 million from the prior year, of which \$259.0 million is in the Link light rail projects. Capitalized during the year was \$81.1 million in land, transit facilities and art, most significantly for land acquisitions for the University Link Extension (\$32.4 million) and the capitalization of the Link Operations and Maintenance Facility. The Link Operations and Maintenance Facility went into partial use in 2007 for the agency to conduct testing and start-up activities in advance of light rail service in 2009. Capital project activity included progress on the Link Central Line; North Link; Beacon Hill Station; traction power systems; the Operations and Maintenance Base; and light rail vehicles.

South King County

Capital assets increased by \$201.6 million from the prior year, of which \$178.9 million was in capital projects in progress. Major capital project spending included: Seattle to Auburn track and signal; Freighthouse Square Remediation; Link Central Line; Airport Link; the Central Link Operations and

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

Operations and Maintenance Base; light rail vehicles; and some trailing costs related to the Federal Way HOV/317th access project. Projects completed and transferred to depreciable assets or contributions to other governments included: trailing costs for the Federal Way HOV Access/317th project; and rail access rights as BNSF makes progress on its improvements to its line.

East King County

Capital assets decreased by \$40.5 million from the prior year, reflecting the completion of the Totem Lake Freeway Station/128th (67.9 million), which is a non ST owned funded project. Major project spending in 2007 included: Totem Lake Freeway Station/NE 128th; Canyon Park Freeway Station/I-405; Issaquah Transit Center; Mercer Island Park and Ride; and I-90 2-Way Transit and HOV.

Pierce County

Capital assets increased by \$15.1 million from the prior year, of which \$11.9 million is in capital projects in progress and \$3.2 million relates to land and depreciable assets. Major capital project spending included: track and signal projects (Auburn to Tacoma) and Lakewood Station. Additions of depreciable assets included the purchase of an additional bus in 2007 for service out of Pierce County.

Regional Fund

Regional Fund capital assets mostly related to Union Station and related furniture, fixtures and equipment and decreased from the prior year by \$0.8 million, with depreciation in excess of the current year additions.

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Independent Accountants' Report on Applying Agreed-Upon Procedures

The Audit and Reporting Subcommittee of the Board of Directors:
Central Puget Sound Regional Transit Authority

We have performed the procedures enumerated below, which were agreed to by the Audit and Reporting Subcommittee, the Citizens Oversight Panel, and management of Central Puget Sound Regional Transit Authority (Sound Transit), solely to assist the Audit and Reporting Subcommittee of the Board of Directors in evaluating the accompanying Schedule of Subarea Equity (the Schedule) (prepared in accordance with the criteria specified therein) for the year ended December 31, 2007. Sound Transit's management is responsible for the Schedule. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Through these procedures there is reference to subarea allocation rules, which are described in note 1 of the unaudited schedule – Significant Subarea Accounting Policies.

The procedures that we performed on the accompanying schedule and our findings are as follows:

Schedule of Subarea Equity

1. We agreed each amount in the total column of the Schedule of Subarea Equity to the audited financial statements of Sound Transit, without exception.
2. We verified the mathematical accuracy of the totals and subtotals shown on the Schedule, without exception.

Operating Revenues

Passenger Fares

3. **Regional Express Passenger Fare Revenues:** We recalculated the amount of Regional Express passenger fare revenues allocated to each subarea by multiplying the allocation percentages (computed from platform hours, subarea boardings and average fare per boarding provided by Sound Transit), by the total Regional Express passenger fare revenues recorded in the general ledger. In addition, we recalculated the allocation percentages described above, without exception.
4. **Sounder Passenger Fare Revenues:** We recalculated the amount of Sounder passenger fare revenues allocated to each subarea by multiplying allocation percentages (computed from the 2007 survey of ridership boardings provided by Sound Transit), by the total Sounder passenger fare revenues. In addition, we recalculated the allocation percentages based on the survey results, without exception.



Other Operating Revenues

5. **Advertising Revenues:** We selected a total of 5 receipts recorded in advertising revenues. We verified that the amounts sampled agreed to underlying support provided by Community Transit and Pierce Transit and verified that the revenues have been allocated in accordance with the allocation percentages derived from the annual estimate of platform hours identified in the Regional Express Service Implementation plan. In addition, we recalculated the allocation percentages described above, without exception.
6. **Building Rental Revenues:** We selected a sample of 5 building rental lease agreements. We verified that the applicable revenue under the agreement has been recorded and the amounts were recorded in the appropriate subarea or Regional Fund, based upon the location of the leased premises, without exception.
7. **Revenue Vehicle Rental Revenues:** We selected a sample of 5 receipts recorded in revenue vehicle rental revenues. We verified that the revenues had been allocated to each subarea on a consistent basis with the underlying vehicle, as recorded in the fixed asset subledger, without exception.

Operating Expenses

8. **Transit Operation and Maintenance Expenses:** We selected a total of 25 charges to operations and maintenance expense. The sample selection included charges to Regional Express, Sounder and Link operations. We verified that the selections agreed to underlying vendor invoices or purchase agreements and agreed to the Sound Transit checks issued as payment. In addition, we verified that each charge was properly classified into the appropriate subarea based on the supporting documentation. Where a charge benefited more than one subarea, we verified that each charge was properly classified into the appropriate subarea or Regional Fund utilizing the authorized allocation rules. We identified that two of our selections were not allocated to the proper subareas. The exceptions were the result of applying an incorrect allocation rates resulting in variances of \$717 and \$1,213. We obtained the subsequent correction of differences noted above without exception.
9. **General and Administrative Expenses:** We selected a total of 25 charges to general and administrative expense. The sample selection included charges to Regional Express, Sounder, Link and the Regional Fund. We verified that the selections agreed to underlying vendor invoices or purchase agreements and agreed to the Sound Transit checks issued as payment. In addition, we verified that each charge was properly classified into the appropriate subarea or Regional Fund based on the supporting documentation. Where a charge benefits more than one subarea, we verified that each charge was properly classified into the appropriate subarea or Regional Fund utilizing the authorized allocation rules, without exception.
10. **Depreciation Expenses:** We agreed the depreciation expense total for each subarea and for the Regional Fund to the year-end reconciliation report from the fixed asset subledger, without exception.

Nonoperating Revenues

11. **Sales and Rental Car Tax Revenues:** We selected three months from throughout the year and agreed the amount of sales and rental car tax recorded in the general ledger to supporting RTA Distribution Schedules received from the Department of Revenue. In addition, we agreed total revenues on the supporting schedules to the Washington State Department of Revenue monthly distribution reports and verified that the revenue was properly classified to the appropriate subarea, without exception.

12. **Motor Vehicle Excise Tax:** We selected three months and agreed the amounts of motor vehicle excise tax to schedules prepared by Sound Transit personnel. We agreed total revenues on the supporting schedules to the Washington State Department of Licensing (DOL) excise tax collection reports and verified that the revenue was properly allocated to the appropriate subarea as reported by DOL. At December 31, 2007, we requested a confirmation of zip code assignment by subarea from DOL. We judgmentally selected 25 zip codes, of which 5 selections included split zips, and ensured they are assigned to the correct geographical subarea by tracing the zip code to the zip code map maintained by Sound Transit's office of Policy and Planning, or by utilizing the Postal Service web site. In addition, for the 5 split zip codes, we ensured that the revenues were allocated in accordance with note 5 to the Schedule of Subarea Equity, without exception.
13. **Grant Revenues:** We selected a sample of grant draw-down requests from monthly U.S. Department of Transportation Federal Transit Administration Echo-Web Payment Reports, representing 8 different grants. For each selection, we traced a judgmentally selected sample of disbursements, or charges, from the draw-down request Detail Grant Outlay Report to the underlying invoice detail and its supporting documentation, arriving at a total sample size of 30 disbursements, without exception. In addition, we verified that the grant revenues had been coded to the correct subarea by agreeing the total from the Detail Grant Outlay Report to the Actual Grant Reimbursements Revenues (Draw-down Revenues) report and traced the distribution to the journal entry posted to the general ledger, without exception.
14. **Interest and Investment Revenues:** We verified the mathematical accuracy of the Annual Reconciliation of Interest Earnings schedule and agreed the total revenues to the general ledger. We verified that interest was appropriately classified to the Regional Fund as outlined in Sound Move Appendix B: Financial Policies and that interest related to the restrictive investments were allocated to the proper subarea on a basis consistent with the subarea classification of restricted assets, without exception.

Nonoperating Expenses

15. **Interest and Bond Issuance Expenses:** We recalculated interest expense related to long-term debt and amortization of bond issuance costs based on allocation methodology outlined in Sound Transit's financial policy – *Subarea Financial Guidance* and as described in the Notes to the Schedule, without exception.

Other

16. **Contribution to Regional Fund:** We verified the mathematical accuracy of contributions to the Regional Fund by adding total tax revenues for each subarea and multiplying the sum by the percentage prescribed in the current financial plan and as described in the Notes to the Schedule, without exception.
17. **Intersubarea Borrowing Revenue (Expense):** We verified the mathematical accuracy of recorded intersubarea borrowings at year end. We verified the monthly revenue (expense) attributed by subarea based on the outstanding borrowing at the beginning of the year, repayment of borrowings and recalculation of interest earnings (expense) at the actual rate of inflation according to the U.S. Department of Labor website (not seasonally adjusted) Seattle–Tacoma–Bremerton, WA area CPI-U and as described in the Subarea Financial Guidance, without exception.
18. **Total Net Assets Beginning and Ending of Year:** We agreed the total net assets, beginning of year for each subarea to the published schedule of subarea equity for the year ended December 31, 2006. In addition, we verified the mathematical accuracy of the ending equity balance for the year ended December 31, 2007 for each subarea by adding beginning equity and the excess of revenues over expenses for the year then ended, without exception.

Capital Assets

19. **Charges to Capital Projects:** We selected a sample of 25 charges to capital projects in progress from a listing of entries to construction in progress general ledger accounts, including charges to projects that may have been completed during the year. We agreed the amounts to the underlying vendor invoice or purchase agreement and Sound Transit payment and determined whether each charge was properly classified into the appropriate subarea. Where a direct vendor charge benefited more than one subarea, we verified that each charge was properly classified into the appropriate subarea or Regional Fund utilizing the authorized allocation rule. In our selections, we identified a purchase order for which four change order task items had been allocated using a prior period allocation rate resulting in a variance of \$11,715. We obtained the subsequent correction of the difference noted above without exception.
20. **Charges To Property and Equipment:** We selected a sample of 25 charges posted to the properties and equipment accounts, exclusive of the capital projects in progress accounts described above in Item 19. We agreed the amounts to the underlying vendor invoice or purchase agreement and Sound Transit payment and determined that each charge was properly classified into the appropriate subarea. Where a charge benefited more than one subarea, we verified that each charge was properly classified into the appropriate subarea or Regional Fund utilizing the authorized allocation rules, without exception.
21. **Accumulated Depreciation:** We agreed accumulated depreciation as reported on the Schedule to the underlying depreciation records, and determined that the amounts allocated to each subarea agreed to the year-end reconciliation report from the fixed asset subledger, without exception.

Bonds Payable

22. **Bonds Payable:** We recalculated amounts allocated to each subarea based on the current financial plan and as described in the notes to the Schedule, without exception.

Net Assets

23. **Invested in Capital Assets, Net of Related Debt:** We recalculated invested in capital assets, net of related debt, by subarea by subtracting the invested in long-term debt from capital assets presented within the schedule, without exception.
24. **Restricted:** We recalculated amounts presented in the schedule by subarea by examining the underlying nature of the restricted asset. For those restricted assets for which the final subarea determination was not yet known, we confirmed that the amount had been assigned to the Regional Fund until actual spending had occurred, without exception.
25. **Unrestricted:** We verified the calculation of unrestricted net assets by subtracting invested in capital assets, net of related debt and restricted net assets from total net assets for each subarea, without exception.

Allocated Charges

26. **Allocated Charges:** We selected from the general ledger a sample of 25 charges from capital, operations and maintenance and general administrative expense categories. We verified that the selections agreed to underlying vendor invoices or purchase agreements and agreed to the Sound Transit check issued as payment. In addition, we verified that each charge was properly classified into the appropriate subarea or Regional Fund, utilizing the allocation rules reviewed and approved by the Board, without exception.



Inter-Subarea Borrowings

27. We verified through review of the financial model provided by management that all inter-subarea borrowings within the financial model are refinanced annually and include annual interest earnings and charges at the forecasted rate of inflation (Seattle CPI-U) through 2009, without exception.
28. We verified through review of the financial model provided that there are no inter-subarea lending activities included in the financial model for the years after 2009.

Debt Service Coverage Calculation

29. We recalculated the net debt service coverage ratio by year in the financial model for each subarea and the agency as a whole for the period 1997 – 2025, without exception. The net debt service coverage ratio is defined as tax revenues, fares, formula grants, and inter-subarea transfers less operations and maintenance costs divided by debt service less initial debt service payments.

* * * * *

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the accompanying Schedule. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Audit and Reporting Subcommittee of the Board of Directors, the Citizens Oversight Panel, and management of Sound Transit, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 19, 2008

**MANAGEMENT'S ANALYSIS OF EXCEPTIONS FOUND IN THE
AGREED UPON PROCEDURES TO THE SCHEDULE OF SUBAREA
EQUITY**

Year Ended December 31, 2007

Procedure No. 8: Transit Operation and Maintenance Expenses

Two invoices related to marketing expenses for ST Express operations used incorrect rates, resulting in an allocation error of \$1,930 between Snohomish, South King, East King, and Pierce subareas. For both invoices incorrect allocation percentages were utilized that did not agree to the current service implementation plan, which was not detected by the central analyst during the review process.

In 2008, while marketing invoice are typically reviewed by a central analyst, for those invoices charged to Transportation Services, responsibility for coding review has been assigned to the Transportation Services Division analysts who have direct familiarity with operating rules.

Procedure No. 19: Charges to Capital Projects

On one purchase order, four change order tasks were set up using a revised rule that differed from the rule adopted for the base contract resulting in an allocation error of \$11,715 between North King County and South King County subareas. The revised rule had not been authorized as typically multiple rule drivers are not utilized on a purchase order and the capital accountant responsible for approving the rules did not recheck the updated calculation or reject the revised rule.

This error is isolated in nature. However procedural documentation will be reviewed to ensure it is clear that multiple rule drivers are not utilized and a review checklist may be introduced if considered warranted.

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***Central Puget Sound
Regional Transit Authority***

*Schedule of Subarea Equity
For the Year Ending December 31, 2007*

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Schedule of Subarea Equity

For the Year Ending December 31, 2007

<i>(in thousands)</i>	Snohomish	North King	South King	East King	Pierce	Regional Fund	Total
Operating Revenues							
Passenger fares	\$ 3,332	\$ -	\$ 3,673	\$ 8,542	\$ 6,482	\$ -	\$ 22,029
Other operating revenue	680	608	1,074	405	1,374	93	4,234
Total Operating Revenues	4,012	608	4,747	8,947	7,856	93	26,263
Operating Expenses							
Operations and maintenance	14,448	-	19,704	36,038	28,923	-	99,113
General and administrative	11	137	13	385	19	16,495	17,060
Loss on disposal of assets	-	-	48	-	-	261	309
Depreciation, amortization and accretion	4,092	293	11,122	5,561	11,990	2,129	35,187
Total Operating Expenses	18,551	430	30,887	41,984	40,932	18,885	151,669
Income (Loss) from Operations	(14,539)	178	(26,140)	(33,037)	(33,076)	(18,792)	(125,406)
Non-Operating Revenues (Expenses)							
Sales tax and rental car tax	33,617	77,181	51,210	75,615	45,171	-	282,794
Motor vehicle excise tax	11,140	15,359	12,187	17,540	16,177	-	72,403
Other non-operating revenues	236	1,002	1,855	-	1,233	20,745	25,071
Non-operating expenses	(57)	(9,736)	(3,562)	(8,246)	(36)	(5,583)	(27,220)
(Interest expense), net of earnings from subarea borrowing	307	(2,984)	(815)	2,323	970	(25)	(224)
Discontinued projects	(211)	-	-	-	-	-	(211)
Total Non-Operating Revenues	45,032	80,822	60,875	87,232	63,515	15,137	352,613
Income (Loss) Before Capital Contributions	30,493	81,000	34,735	54,195	30,439	(3,655)	227,207
Capital Contributions							
Capital contributions to other governments	(4,418)	-	(10,323)	(93,113)	(7,671)	(32)	(115,557)
Federal capital contributions	4,477	59,705	35,835	4,077	7,741	833	112,668
Other capital contributions	-	1,211	1,409	700	1,350	-	4,670
Net Contributions	59	60,916	26,921	(88,336)	1,420	801	1,781
Change in Net Assets	30,552	141,916	61,656	(34,141)	31,859	(2,854)	228,988
Total Net Assets, Beginning of Year	252,589	921,469	570,391	407,262	384,057	111,512	2,647,280
Total Net Assets, End of Year	\$ 283,141	\$ 1,063,385	\$ 632,047	\$ 373,121	\$ 415,916	\$ 108,658	\$ 2,876,268

See Notes to Schedule of Subarea Equity

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Schedule of Subarea Equity, *continued*

For the Year Ending December 31, 2007

<i>(in thousands)</i>	Snohomish	North King	South King	East King	Pierce	Regional Fund	Total
Capital Assets							
Non-Depreciable Assets							
Land	\$ 20,155	\$ 176,905	\$ 65,210	\$ 12,369	\$ 51,945	\$ -	\$ 326,584
Permanent easements	260,246	871	5,969	-	90	-	267,176
Capital projects in progress							
Sound Transit	20,937	1,351,410	573,275	44,978	47,444	5,119	2,043,163
Other governments	27,562	-	3,956	22,593	-	-	54,111
Total Non-Depreciable Assets	328,900	1,529,186	648,410	79,940	99,479	5,119	2,691,034
Depreciable Assets							
Transit facilities and heavy equipment	22,693	49,767	117,923	30,309	111,998	-	332,690
Rail access rights	15,367	-	174,062	-	140,697	-	330,126
Buildings and leasehold improvements	-	418	21	-	10	22,729	23,178
Revenue vehicles	39,613	-	59,526	43,894	92,565	-	235,598
Furniture, equipment and vehicles	33	295	100	65	1	15,432	15,926
Equipment under capital lease	-	-	-	-	-	940	940
Total Depreciable Assets	77,706	50,480	351,632	74,268	345,271	39,101	938,458
Less accumulated depreciation	(22,892)	(453)	(45,039)	(30,048)	(56,396)	(20,673)	(175,501)
Net Depreciable Assets	54,814	50,027	306,593	44,220	288,875	18,428	762,957
Total Capital Assets	383,714	1,579,213	955,003	124,160	388,354	23,547	3,453,991
Long-Term Debt							
Bonds payable	122,055	691,230	333,783	-	98,392	-	1,245,460
Other long-term debt	-	-	-	-	-	426	426
Less: unamortized bond issuance costs	(851)	(4,816)	(2,325)	-	(686)	-	(8,678)
Total Long-Term Debt, net of issuance costs	121,204	686,414	331,458	-	97,706	426	1,237,208
Invested in Capital Assets	\$ 262,510	\$ 892,799	\$ 623,545	\$ 124,160	\$ 290,648	\$ 23,121	\$ 2,216,783

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Schedule of Subarea Equity, *continued*

For the Year Ending December 31, 2007

<i>(in thousands)</i>	Snohomish	North King	South King	East King	Pierce	Regional Fund	Total
Inter-subarea (Borrowing) Lending	-	-	-	-	-	-	-
Net Assets							
Invested in capital assets, net of related debt	\$ 262,510	\$ 892,799	\$ 623,545	\$ 124,160	\$ 290,648	\$ 23,121	\$ 2,216,783
Restricted							
Contractual arrangements	-	373	20,914	-	17,139	19,637	58,063
Debt service, net of related obligations	4,362	24,704	11,929	-	3,517	-	44,512
Deductible liability protection policy	-	-	-	-	-	4,219	4,219
State appropriation	703	-	672	-	777	-	2,152
	<u>5,065</u>	<u>25,077</u>	<u>33,515</u>	<u>-</u>	<u>21,433</u>	<u>23,856</u>	<u>108,946</u>
Unrestricted	<u>15,566</u>	<u>145,509</u>	<u>(25,013)</u>	<u>248,961</u>	<u>103,835</u>	<u>61,681</u>	<u>550,539</u>
Total Net Assets	<u>\$ 283,141</u>	<u>\$ 1,063,385</u>	<u>\$ 632,047</u>	<u>\$ 373,121</u>	<u>\$ 415,916</u>	<u>\$ 108,658</u>	<u>\$ 2,876,268</u>

See Notes to Schedule of Subarea Equity.

Notes to Schedule of Subarea Equity, continued

NOTES TO SCHEDULE OF SUBAREA EQUITY

For the Year Ending December 31, 2007

NOTE 1: SIGNIFICANT SUBAREA ACCOUNTING POLICIES

Revenues and expenditures directly associated with a particular subarea or project are directly credited or charged to that subarea. Revenues and expenditures benefiting more than one subarea or project are classified according to pre-established allocation rules that are expressed as percentages reflecting the Agency's assumptions regarding multiple subarea and project benefit. For capital projects these rules are developed based on the specific nature of the task rendered. For revenue and operations, maintenance, and general and administrative expenditures, rules are developed based on relevant activity drivers.

Substantially all of the Agency's expenditures are processed through the purchase order system, and coding is assigned at the time the purchase order is issued. Generally projects are subarea specific; however, some projects benefit multiple subareas and accordingly allocation rules are applied. If a rule is updated based on service implementation changes or improved activity drivers, purchase order coding is not updated for contracts that generally extend beyond one year, unless the cost of the contract and the change to the equity area percentage would have a significant impact. For all remaining purchase orders, coding is updated to the current rule in use at the time the contract is renewed.

NOTE 2: OPERATING REVENUES

Passenger fares for ST Express operations are attributed to: Snohomish County; South King County; East King County; and, Pierce County subareas. For Sounder commuter rail operations they are attributed to: Snohomish County; South King County; and, Pierce County subareas. ST Express passenger fare revenue is allocated to each subarea during the year based on average fare per boarding and forecasted platform hours adjusted to actual at the end of the year. In 2007 the allocation by subarea was as follows: 16.50% to Snohomish County; 10.35% to South King County; 55.45% to East King County; and 17.70% to Pierce County. Sounder passenger fare revenue for the Tacoma-to-Seattle service is allocated to each subarea based on a boarding survey as follows: 36.81% to South King County and 63.19% to Pierce County. All revenue earned on the Everett-to-Seattle service is attributed to Snohomish County.

Other operating revenue consists of advertising revenues, building and rental revenues, vehicle rental revenues and miscellaneous revenues. Advertising revenues are allocated to each subarea based on the bus route miles within each subarea. Building rental revenue is allocated to each subarea based on the location of the buildings. Revenue vehicle rental revenue is allocated to the subareas in the same proportion as the capitalized vehicles as follows: 20.95% to Snohomish County; 36.90% to South King County; and 42.15% to Pierce County. Regional Fund revenue is primarily attributed to rental of the Great Hall for events throughout the year.

NOTE 3: OPERATING EXPENSES

Operating expenses are costs associated with generating operating revenue and include costs for ST Express bus services, Sounder commuter rail services and Tacoma Link light rail. Operations and maintenance expenses and general and administrative expenses are charged to the subarea in which the expense occurs. Expenses that are not specific to a single subarea are allocated based on cost allocation rules, such as track or route miles, operating hours, and facility and equipment locations.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Schedule of Subarea Equity, continued

NOTE 4: SALES AND RENTAL CAR TAX

Pursuant to Washington State RCW 81.104.170, Sound Transit has imposed a 0.4% sales and use tax for the purpose of providing high-capacity transportation service. This tax is in addition to the State of Washington sales tax and is collected by the Washington State Department of Revenue (DOR) on behalf of Sound Transit on all taxable transactions within Sound Transit's boundary. Sound Transit has also imposed a 0.8% sales and use tax on rental cars in lieu of motor vehicle excise tax, as provided for in RCW 81.104.160.

Sales tax is attributed to subareas utilizing DOR reporting by city location codes. Cities are generally unique to subareas with the exception of Bothell, Pacific, Milton and Auburn. Cities that are not unique to subareas have multiple city location reporting codes assigned, and revenue is recorded as reported by these codes. In addition, for unincorporated areas within King County, sales tax is allocated to the subareas based on relative population in the unincorporated areas of south and east King County.

NOTE 5: MOTOR VEHICLE EXCISE TAX

Pursuant to Washington State RCW 81.104.160, Sound Transit has imposed a 0.3% motor vehicle excise tax for the purpose of providing high-capacity transportation service. The Washington State Department of Licensing (DOL) collects this tax on Sound Transit's behalf on applicable vehicles licensed within Sound Transit's boundary.

The motor vehicle excise tax is attributed to subareas based on the zip code in which the vehicle is licensed. DOL utilizes DOR's geographical information system to track, report and remit by zip code revenues within Sound Transit's boundary and provides reports detailing motor vehicle excise tax by subarea based on the zip code assignment. Where a zip code falls within two subareas, revenue is allocated between those two subareas based on their relative population.

NOTE 6: OTHER NON-OPERATING REVENUES (EXPENSES)

According to *Sound Move Appendix B: Financial Policies*, investment earnings (other than those specifically associated with a subarea project or unspent bond proceeds) are allocated to the Regional Fund. Any additional amounts, above investment earnings, required to fund the Regional Fund for Phase I are contributed by the subareas based on proportional share of tax revenues, as described in Note 7. Regional Fund investment income reflects interest earned on investments and changes in market value.

Investment income related to the Burlington Northern and Santa Fe Railway repurchase agreement is allocated to each subarea based on the relative percentage of track or route miles located in each subarea. Of the total track miles, 54.96% are in the South King County subarea and 45.04% are in the Pierce County subarea.

Capital contributions are attributable to subarea-specific projects identified in the grant award and are earned as qualifying expenditures are incurred.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Schedule of Subarea Equity, continued

NOTE 7: CONTRIBUTIONS TO THE REGIONAL FUND

Based on the 2007 Financial Plan for Phase I of *Sound Move* (1997 through 2009), there were no contributions to the Regional Fund required. Contributions are made to the Regional Fund on an annual basis to pay for programs throughout Phase I. According to *Sound Move Appendix B: Financial Policies*, subareas may contribute up to 10% of tax revenues for funding of the Regional Fund.

NOTE 8: CAPITAL ASSETS

Capital assets include non-depreciable and depreciable assets. Capital asset costs are allocated to the subarea in which the asset or project is located or was allocated under *Sound Move*. For asset or project costs that are not specific to a single subarea, capital costs are distributed based on cost allocation rules such as track miles.

Non-depreciable assets: Non-depreciable assets include land and capital projects in progress. Capital projects in progress include project costs that are being accumulated before an asset is put into service and are segregated between assets in which Sound Transit maintains a continuing ownership interest and capital assets that are built by Sound Transit pursuant to agreements with other governments and where Sound Transit does not maintain a continuing ownership interest. Costs are either specific to a subarea or are allocated to a subarea based on board approved rules reflective of *Sound Move Appendix A: Detailed Description of Facilities and Costs* and *Sound Move Appendix B: Financial Policies*.

Depreciable assets: Depreciable assets include: transit facilities and heavy equipment; buildings and leasehold improvements; revenue vehicles; furniture, equipment, and vehicles; and assets under capital leases that have been placed into service. Costs are either specific to a subarea or are allocated to a subarea based on board approved rules reflective of *Appendix A* and *Appendix B*.

NOTE 9: LONG-TERM DEBT AND INTER-SUBAREA BORROWING

Consistent with *Sound Move*, the Agency issues debt and manages its cash on a consolidated basis. Bonds issued during Phase I, interest expense and bond issuance costs are allocated as spent to each subarea on a basis consistent with the forecasted total bond allocation included in the annual updated Financial Plan for Phase I. Any changes in annual allocation are done prospectively. At the end of Phase I, a reconciliation will be performed to substantiate debt issuance, related interest expense and related issuance costs by subarea.

Sound Transit's subarea financial and debt policies provide for inter-subarea borrowings based on a subarea's need prior to the completion of Phase I. This need occurs when a subarea's restricted and unrestricted net assets are in a combined deficit position. In 2007, North King County and South King County required inter-subarea borrowing from February through November and April through November respectively. All amounts were repaid at year-end.

Prior to December 31, 2003, the outstanding bonds were allocated based on *Sound Move Appendix A: Detailed Description of Facilities and Costs* which was the basis for the finance plan that was in effect when the bonds were issued. Effective December 31, 2003, this methodology was updated so that bonds are allocated based on the current financial plan in effect and updated annually. Interest expenses and related issuance costs incurred are allocated each year based on the current financial plan. At the end of Phase I, interest costs will be allocated based on borrowing requirements and will be part of the overall Phase I reconciliation. The table on the following page depicts the current and prior year allocation of the outstanding bond issues, in accordance with their respective finance plans:

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Schedule of Subarea Equity, continued

Subarea	Percentage of Total		2007 Debt Service Expenditures (in thousands)
	December 31 2007	December 31 2006	
Snohomish County	9.8%	11.4%	\$ 3,652
North King County	55.5%	43.1%	20,683
South King County	26.8%	32.6%	9,988
East King County	-	-	-
Pierce County	7.9%	12.9%	2,944
Total	100.0%	100.0%	\$ 37,267

NOTE 10: TOTAL NET ASSETS AND RESOURCES AVAILABLE FOR INVESTMENT

Total net assets are the aggregate amount of revenues less expenses and related debt service from 1997 through 2007. Revenues include taxes, grants, interest, fares and other revenues. Expenses include transit operations, general and administrative, depreciation and other expenses. Total net assets, less capital investments, represent the amount still available for investment by each subarea for Phase I to date. This available investment amount does not include future bond issues related to completing Phase I capital projects. The table below depicts total net assets, capital investments to date and resources available for investment as of December 31, 2007:

Subarea	Total Net Assets (in thousands)	Capital Investments through 2007	Available for Investment
Snohomish County	\$ 283,141	\$ 262,510	\$ 20,631
North King County	1,063,385	892,799	170,586
South King County	632,047	623,545	8,502
East King County	373,121	124,160	248,961
Pierce County	415,916	290,648	125,268
Regional Fund	108,658	23,121	85,537
Total	\$ 2,876,268	\$ 2,216,783	\$ 659,485